

COMMITTEE ON NATURAL RESOURCES AND RURAL AFFAIRS

SENATE AMENDMENTS TO H.B. 2511

(Reference to House engrossed bill)

1 Page 1, between lines 1 and 2, insert:

2 "Section 1. Section 27-555, Arizona Revised Statutes, is amended to
3 read:

4 27-555. Lease of state lands not located within known geological
5 structure of producing oil and gas field; application;
6 lease extension; provisions of lease; withdrawal of
7 lands from leasing

8 A. When state lands are not located within any known geological
9 structure of a producing oil and gas field, as determined pursuant to section
10 27-554, the person making the first application for the lease shall be issued
11 a lease covering the lands without competitive bidding.

12 B. The noncompetitive leases shall provide for the payment by the
13 lessee of a royalty of twelve and one-half per cent of EITHER:

14 1. The oil, gas and other hydrocarbons produced and saved from the
15 leased premises. ~~or,~~

16 2. At the option of the department, the market value of such products
17 determined AS FOLLOWS:

18 (a) At the ARM'S LENGTH price prevailing on the day the product is run
19 into a pipeline or otherwise removed from the leased premises IF THE
20 PRODUCTION IS BEING SOLD FOR AN ARM'S LENGTH PRICE.

21 (b) IF NO ARM'S LENGTH PRICE IS AVAILABLE FOR THE PRODUCTION, AT THE
22 PUBLICLY AVAILABLE ARM'S LENGTH PRICES FOR SALES OF PRODUCTION OF COMPARABLE
23 TYPE AND QUALITY, IN GENERALLY COMPARABLE QUANTITIES, IN THE VICINITY. FOR
24 THE PURPOSES OF THIS SUBDIVISION, "VICINITY" MEANS THE SMALLEST GEOGRAPHICAL
25 LOCAL AREA CONTAINING SUFFICIENT DATA TO ESTABLISH AN ARM'S LENGTH PRICE.

1 (c) IF NO ARM'S LENGTH PRICE IS AVAILABLE FOR THE PRODUCTION AND THERE
2 ARE NO PUBLICLY AVAILABLE ARM'S LENGTH PRICES FOR SALES OF PRODUCTION OF
3 COMPARABLE TYPE AND QUALITY, IN GENERALLY COMPARABLE QUANTITIES, IN THE
4 VICINITY, THE DEPARTMENT MAY ESTABLISH MARKET VALUE THROUGH APPRAISAL
5 COMPLETED BY AN INDEPENDENT LICENSED APPRAISER THAT CONFORMS WITH GENERALLY
6 RECOGNIZED APPRAISAL METHODOLOGIES. THE APPRAISAL IS NOT BINDING ON EITHER
7 THE DEPARTMENT OR THE LESSEE, BUT MAY SERVE AS EVIDENCE OF MARKET VALUE.

8 (d) IF A PRICE IS DETERMINED UNDER SUBDIVISION (b) OR (c) AND A PRICE
9 UNDER A HIGHER RANKED ALTERNATIVE BECOMES AVAILABLE, THE PRICE DETERMINED
10 UNDER THE HIGHER RANKED ALTERNATIVE SHALL BE USED. IF A PRICE IS DETERMINED
11 UNDER SUBDIVISION (b) OR (c) AND THE BASIS FOR DETERMINING THAT PRICE IS NO
12 LONGER AVAILABLE, THE PRICE DETERMINED UNDER THE NEXT HIGHEST-RANKING
13 ALTERNATIVE THAT IS AVAILABLE SHALL BE USED. IF A PRICE IS DETERMINED BY THE
14 LESSEES UNDER SUBDIVISION (a), THE DEPARTMENT MAY REQUIRE THE LESSEE TO
15 CERTIFY THAT THE PRICE USED IS AN ARM'S LENGTH PRICE.

16 (e) FOR THE PURPOSES OF THIS PARAGRAPH, "ARM'S LENGTH PRICE" MEANS A
17 PRICE NEGOTIATED BETWEEN A WILLING BUYER AND A WILLING SELLER, WHERE THE
18 BUYER AND SELLER ARE NOT AFFILIATES AND THE SELLER IS NOT RECEIVING PROPERTY
19 OR OTHER NON-CASH CONSIDERATION AS PART OF THE TRANSACTION. FOR THE PURPOSES
20 OF THIS SUBDIVISION, "AFFILIATE" MEANS PARTIES THAT ARE RELATED BY BLOOD OR
21 MARRIAGE, OR, IN THE CASE OF ENTITIES, THAT ARE UNDER DIRECT OR INDIRECT
22 COMMON CONTROL OR ONE OF WHICH CONTROLS THE OTHER.

23 C. Royalties, including shut-in gas royalties, reserved to the state
24 on production from any state lands leased pursuant to this article and
25 committed to a unit plan of development by virtue of a unit agreement shall
26 be paid only on that portion of production allocated to such state lands or
27 any part of the state lands, pursuant to the terms and conditions of the unit
28 agreement.

29 D. The leases shall provide for the payment in advance of an annual
30 rental of one dollar per acre per year for each year of the primary term of
31 the lease. All leases shall provide for a minimum rental of forty dollars
32 per year.

1 E. Each lease issued under this section shall be for a primary term of
2 five years and as long thereafter as oil or gas is produced in paying
3 quantities from the lands covered by the lease, except that:

4 1. If oil or gas is not being produced from the leased premises at the
5 expiration of the primary term of the lease, the lessee shall have a right to
6 an extension of the term of the lease for an additional term of five years
7 and as long thereafter as oil or gas is produced in paying quantities from
8 the leased premises by paying each year in advance double the rental payable
9 during the primary term of the lease, except that the lessee will have no
10 further right to any additional extension for successive terms. In the
11 exercise of such right, the provisions of section 27-556 relating to sales
12 made upon competitive bidding by sealed bid shall not apply in any case, but
13 all such extensions shall be upon the terms and conditions contained in the
14 original lease, except that the rental for the extended term shall be as
15 provided in this paragraph, and except further that the rental for the
16 extended term of any lease amended pursuant to subsection L of this section
17 shall be as provided in that subsection.

18 2. If oil or gas is not being produced from the leased premises at the
19 expiration of the primary term of the lease or any extension of the lease
20 pursuant to paragraph 1, but the owner of the lease is diligently engaged in
21 drilling, completion or reworking operations, the lease continues in force
22 for a period of two years from the date in which the lease would have
23 otherwise expired and as long thereafter as oil or gas is produced in paying
24 quantities from the lands. If oil or gas is produced from any such well or
25 any other well drilled during any two year extension, the lease shall
26 continue in force after such two year extension as long as oil or gas is
27 produced in paying quantities from the leased premises, except that rental
28 requirements at the beginning of any lease extension shall be at the rate in
29 existence at that time.

30 3. Oil or gas that is produced from any part of a unit in which state
31 lands are included by virtue of a unit agreement and that is allocated to all
32 or any part of such state lands pursuant to the terms and conditions of the

1 unit agreement is deemed to be produced from the state lands or that part of
2 the state lands to which the production is allocated.

3 4. If for any reason production of oil or gas from the leased lands
4 ceases after the primary term or after extension of the lease, the lease
5 shall not terminate if the lessee commences drilling, completion or reworking
6 operations on the land within ninety days from cessation of production, and
7 if drilling, completion or reworking operations are conducted with reasonable
8 diligence, the lease shall remain in force as long thereafter as such
9 drilling, completion or reworking operations are conducted or as long
10 thereafter as oil or gas is produced in paying quantities from the leased
11 lands, but in no event to extend beyond two years if production is not
12 restored.

13 F. Each lease shall provide that the state's royalties shall be
14 computed after deducting any oil or gas reasonably used in operations on the
15 lease.

16 G. The leases shall contain other terms and provisions, not
17 inconsistent with the provisions of this article or other laws of the state,
18 as in the opinion of the department are for the best interest of the
19 state. The lease shall not contain any provision for a premium, tax, fee or
20 other assessment other than the application fees, rentals and royalties
21 provided in statute. Application fees, rentals, royalties or other charges
22 shall be based upon the application fees, rentals, royalties or other charges
23 as provided in statute in effect at the time that the completed application
24 is received by the department.

→ 25 H. Not more than six miles square shall be included in any one lease.
→ 26 The lands shall be in as compact a body as possible but may include
→ 27 noncontiguous land within the six mile area. A discovery well capable of
→ 28 producing oil and gas in paying quantities will perpetuate a lease of not
→ 29 more than two thousand five hundred sixty acres which must be designated by
→ 30 the lessee within thirty days of completion of the well. The department
→ 31 shall promulgate rules which will assure due diligence in the drilling of
→ 32 development wells to fully define the field.

1 I. Each lease shall provide that any combination, understanding or
2 agreement entered into by the lessee, written, verbal or otherwise, for the
3 purpose of delaying discovery or development of oil or gas is an illegal
4 practice, and that upon legal determination thereof shall constitute grounds
5 for cancellation of the lease. In the event of such an illegal practice,
6 appropriate proceedings may be instituted by the attorney general against the
7 lessee in the county in which the land or any part thereof is located. A
8 cooperative or unit plan entered into pursuant to this article or any other
9 conservation statute of this state shall not be held to violate this
10 subsection or any other statute of this state prohibiting monopolies or acts,
11 arrangements, contracts, combinations or conspiracies in restraint of trade
12 or commerce on account of operations conducted under such a plan.

13 J. Applications for noncompetitive leases shall be in writing
14 addressed to the department, ~~and~~ shall contain a description of the lands
15 sufficient to identify them, ~~AND~~ the name and address of the applicant, ~~and~~
16 shall be accompanied by a filing fee and the rental payment for the first
17 year. Each application shall be stamped when received by the department with
18 a stamp showing the day and hour when received. If valid applications
19 covering the same lands are filed simultaneously, the department shall
20 ~~provide by general regulation for a drawing between the applicants to~~
21 ~~determine which shall be entitled to a lease of the lands. If the lease is~~
22 ~~not issued, the rental payment shall be refunded to the applicant.~~ OFFER THE
23 LEASE TO THE PARTIES INVOLVED IN THE SIMULTANEOUS APPLICATIONS BY COMPETITIVE
24 BID, AS FOLLOWS:

25 1. THE DEPARTMENT SHALL ISSUE A NOTICE OF THE COMPETITIVE BID
26 CONTAINING A DESCRIPTION OF THE LAND PROPOSED TO BE LEASED AND THE TIME WHEN
27 THE BIDS WILL BE RECEIVED AND OPENED.

28 2. THE DEPARTMENT SHALL OFFER THE LEASE TO THE HIGHEST QUALIFIED
29 BIDDER SUBMITTING A SEALED BID, ON THE BASIS OF A CASH BONUS.

30 3. ALL BIDS, TOGETHER WITH A CERTIFIED CHECK IN THE AMOUNT OF THE
31 BONUS BID, MUST BE SUBMITTED TO THE DEPARTMENT AT THE STATE CAPITOL AND SHALL
32 OPENED AT THE OFFICE OF THE DEPARTMENT AT THE TIME SPECIFIED.

1 4. IF IDENTICAL BIDS ARE RECEIVED, WITHIN TEN DAYS OF THE OPENING OF
2 THE BIDS THE DEPARTMENT SHALL REQUEST NEW BIDS FROM THE SUBMITTERS OF THE
3 IDENTICAL BIDS, AND SHALL REPEAT THE PROCESS UNTIL A HIGH BIDDER IS
4 DETERMINED.

5 5. BEFORE ACCEPTING ANY COMPETITIVE BID FOR A LEASE UNDER THIS
6 SUBSECTION, THE DEPARTMENT SHALL ESTABLISH TO ITS SATISFACTION THE
7 RESPONSIBILITY OF THE BIDDER.

8 6. THE DEPARTMENT SHALL RETURN ALL CHECKS ACCOMPANYING REJECTED BIDS.

9 K. The department may withdraw from leasing any specific area of land
10 not located within any known geological structure of a producing oil and gas
11 field when it appears that the withdrawal is in the interest of the state,
12 but no lands shall be withdrawn by the department without the consent of a
13 committee composed of the governor, who shall be chairman, the attorney
14 general, and the dean of the college of mines of the university of
15 Arizona. The committee shall consider the proposed withdrawal presented by
16 the department and determine whether the withdrawal shall be permitted. The
17 land, after being withdrawn from leasing, may again be offered for leasing at
18 any time the department deems in the best interests of the state, subject to
19 the advice and consent of the committee provided for in this section, and
20 pursuant to notice as the committee deems necessary.

21 L. The owner of any state oil and gas lease issued by the department
22 and maintained in good standing according to the terms and conditions of the
23 lease and all applicable statutes and regulations shall have the right to
24 elect at any time to have such lease amended to contain the same term and
25 extension provisions and the same provisions relating to unit operations and
26 unit agreements which have been or may be approved by the state land
27 commissioner as are provided by law for state oil and gas leases upon filing
28 a written notice of such election with the department. Upon such written
29 notice to the department the lease term and extension provisions and the
30 provisions relating to unit operations and unit agreements shall be deemed
31 amended. The lease as amended shall include all other provisions, except
32 those providing for rents, contained in the original lease and shall bear the

1 same commencement date as the original lease. The lease as amended shall
2 require the payment in advance of an annual rental of one dollar fifty cents
3 per acre per year for each year of any extension of the lease beyond the
4 primary term of the lease, except extensions of the primary term based upon
5 the production of oil or gas."

6 Renumber to conform

7 Page 2, after line 21, insert:

8 "Sec. 3. Section 27-556, Arizona Revised Statutes, is amended to read:

9 27-556. Lease of state lands located within known geological
10 structure of producing oil or gas field; sealed bids;
11 call for bids; publication; lease extension;
12 provisions of lease; acreage limitation

13 When state lands are located within a known geological structure of a
14 producing oil or gas field, as determined pursuant to section 27-554, the
15 lands shall be leased only by sealed bids, as follows:

16 1. Upon receipt of an application to lease any of such lands or
17 whenever, in the opinion of the department, there is a demand for the
18 purchase of leases of the lands, the department shall offer the tract or
19 tracts for lease to the highest qualified bidder submitting a sealed bid, on
20 the basis of a cash bonus.

21 2. The department shall publish a call for sealed bids twice in a
22 newspaper of general circulation in the state, the last publication to be not
23 less than fifteen days prior to the date fixed for opening the bids. All
24 bids, together with a certified check in the amount of the bonus bid, shall
25 be submitted to the department at the capitol, and opened at the office of
26 the department at the time specified. On or before December 1 each year, the
27 department shall designate by general order the newspaper in which the
28 publications shall be made during the following calendar year. The successful
29 bidder shall pay the cost of the publication and the reasonable expenses of
30 the sale.

31 3. The publication shall contain a description of the land proposed to
32 be leased, the time when the bids will be received and opened, the royalty to

1 be demanded which the department shall fix prior to call for bids at not less
2 than twelve and one-half per cent, and an annual rental to be demanded in the
3 amount of one dollar per acre for each year.

4 4. The publication shall set forth the form of lease which the
5 successful bidder will be required to execute. In lieu of publishing the
6 form of lease in its entirety the publication may specify the form of lease
7 by designating the form number of lease on file with the department, copies
8 of which shall be furnished any person on request.

9 5. Royalties, including shut-in gas royalties, reserved to the state
10 on production from any state lands leased pursuant to this article and
11 committed to a unit plan of development by virtue of a unit agreement shall
12 be paid only on that portion of production allocated to such state lands or
13 any part of the state lands, pursuant to the terms and conditions of such
14 unit agreement.

15 6. Each lease issued under this section shall be for a primary term of
16 five years and as long thereafter as oil or gas is produced in paying
17 quantities from the lands covered by the lease except that:

18 (a) If oil or gas is not being produced from the leased premises at
19 the expiration of the primary term of the lease, but the owner of the lease
20 is diligently engaged in drilling, completion or reworking operations, the
21 lease continues in force for a period of two years from the date ~~in~~ ON which
22 the lease would have otherwise expired and as long thereafter as oil or gas
23 is produced in paying quantities from the lands. If oil or gas is produced
24 from any such well or any other well drilled during any two year extension,
25 the lease shall continue in force after such two year extension as long as
26 oil or gas is produced in paying quantities from the leased premises.

27 (b) Oil or gas that is produced from any part of a unit in which state
28 lands are included by virtue of a unit agreement and that is allocated to all
29 or any part of such state lands pursuant to the terms and conditions of the
30 unit agreement is deemed to be produced from the state lands or that part of
31 the state lands to which the production is allocated.

1 (c) If for any reason production of oil or gas from the leased lands
2 ceases after the primary term or any extension, the lease shall not terminate
3 if the lessee commences drilling, completion or reworking operations on the
4 land within ninety days from cessation of production, and if drilling,
5 completion or reworking operations are conducted with reasonable diligence,
6 the lease shall remain in force as long thereafter as such drilling,
7 completion or reworking operations are conducted or as long thereafter as oil
8 or gas is produced in paying quantities from the leased lands, but in no
9 event to extend beyond two years if production is not restored.

10 7. The lease may contain other terms and provisions not inconsistent
11 with the provisions of this article or other laws of the state, as in the
12 opinion of the department are for the best interests of the state.

13 8. Each lease shall provide that the state's royalties shall be
14 computed after deducting any oil or gas reasonably used in operations on the
15 lease.

16 9. Each lease shall provide that any combination, understanding or
17 agreement entered into by the lessee, written, verbal or otherwise, for the
18 purpose of delaying the discovery or development of oil or gas is an illegal
19 practice, and that upon legal determination thereof shall constitute grounds
20 for cancellation of the lease. In the event of such an illegal practice,
21 appropriate proceedings may be instituted by the attorney general against the
22 lessee in the county in which the land, or any part thereof, is located. A
23 cooperative or unit plan entered into pursuant to this article or any other
24 conservation statute of this state shall not be held to violate this
25 paragraph or any other statute of this state prohibiting monopolies or acts,
26 arrangements, contracts, combinations or conspiracies in restraint of trade
27 or commerce on account of operations conducted under such a plan.

28 10. The owner of any state oil and gas lease issued by the department
29 and maintained in good standing according to the terms and conditions of the
30 lease and all applicable statutes and regulations shall have the right to
31 elect at any time to have such lease amended to contain the same term and
32 extension provisions and the same provisions relating to unit operations and

1 unit agreements which have been or may be approved by the state land
2 commissioner as are provided by law for state oil and gas leases upon filing
3 a written notice of such election with the department. Upon such written
4 notice to the department the lease term and extension provisions and the
5 provisions relating to unit operations and unit agreements shall be deemed
6 amended. The lease as amended shall include all other provisions, except
7 those providing for rents, contained in the original lease and shall bear the
8 same commencement date as the original lease. The lease as amended shall
9 require the payment in advance of an annual rental of one dollar and fifty
10 cents per acre per year for each year of any extension of the lease beyond
11 the primary term of the lease, except extensions of the primary term based
12 upon the production of oil or gas.

13 11. Before offering any state lands for lease under sealed bids the
14 department shall determine the tract or tracts into which the lands shall be
15 divided for leasing purposes. Each tract shall contain not less than one
16 quarter section of land and not more than two sections of land, but a tract
17 containing less than one quarter section of land may be leased if the tract
18 is segregated from other state lands not then subject to oil and gas
19 lease. All tracts shall be in reasonably compact form.

20 12. ~~Each offer for lease~~ THE DEPARTMENT shall reserve the right ~~in the~~
21 ~~department~~ to reject any and all bids ON EACH OFFER FOR LEASE and to again
22 offer the tract or tracts for lease if the bids received are not acceptable
23 to the department.

24 13. Before acceptance of any bid for a lease under this section, the
25 department shall establish to its satisfaction the responsibility of the
26 bidder.

- 1 14. The department shall return all checks accompanying rejected bids."
- 2 Amend title to conform

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